

ESG: India Inc's New Alpha Mantra?

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Among many new paradigms established last year, ESG stood out for both investors and corporates (ESG refers to the framework of a company to include environmentally conscious business practices, strong social responsibility and corporate governance). There is a visible rise in demand from asset managers to invest in companies with high ESG scores.

Data from Morningstar shows sustainable funds in India saw inflows of more than half a billion dollars from January to March 2020. Why? "Several studies highlight that companies with good ESG scores tick most of the checkboxes for investing, tend to mitigate environmental and social risks, and tend to have stronger cash flows, lower borrowing costs and durable returns," Chintan Haria, Head of Product & Strategy, ICICI Prudential AMC told ET. Agrees Rajesh Dahiya, Executive Director at Axis Bank: "As a commercial lender, ESG factors do play a role in our lending decisions. In fact, over the past few years, we have worked to put in place a policy and system that integrates environmental and social risk imperatives into our credit appraisal in corporate lending."

Taking the cue, some Indian companies have brought in ESG-related strategies and initiatives. Dalmia Cement has committed to a carbon negative roadmap. Mahindra & Mahindra has an over \$600 million green product portfolio across its businesses from electric mobility to green buildings to waste-to-energy initiatives. And JSW has built a pipe conveyor belt to transport 36MT of iron ore every year. In a bid to cut pollution from truck transportation.

"Practice of ESG helps reduce cost, gives new sources of revenue, access to new talent, and brings you new consumers. It is another quiver for companies to become more resilient," says Anirban Ghosh, Chief Sustainability



Officer at M&M. In fact, ESG is now critical for Indian companies to remain competitive globally. "Our customers are ready to pay more for our premium quality steel because of our brand and the trust in it," says Seshagiri Rao, Joint MD and Group CFO of JSW Group. "How do you think that was built? On the strength of our ESG framework. Tomorrow, if you want to export, ESG will be the gamechanger for you."

COVID has ensured there is greater focus on ESG – US data shows a record \$27.7 billion flow into ESG ETFs in 2020, more than three times the previous year. "In times of Covid-19 uncertainty it was yet again proven that companies having better ESG strategy do well by protecting people, communities and economic performance," says Mahendra Singhi, MD & CEO of Dalmia Cement. "Therefore, it is a natural inclination for investors to follow ESG and sustainability as alpha to beat the indices, and reduce overall volatility and known systematic market risks."

The success of ESG in corporate strategy is because a strong fram-

ework of environment-friendly business practices with a socially responsible approach and strong governance ensures business-risk mitigation. "Longevity is the fruit of strict adherence to ESG," says Jinesh Gopani, Head Equity at Axis Mutual Fund. But beyond longevity, is the strength of a company's ESG framework being rewarded by investors in India? "It would be reasonable to say that in a few years, ESG investing in India will reach a stage where we can clearly identify that companies performing better on ESG parameters are being rewarded by investors," answers Singhi.

But there are nuances. "While the results of environment-friendly tech adoption and actions are easy to showcase and so are the social responsibilities; many Indian companies find it difficult in coming out transparently with good governance practices. Sound business ethics still has an opportunity to be better ingrained," said Dipankar Ghosh, Partner & Leader, Sustainability Climate Change and ESG, Thinkthrough Consulting.

To this end, experts say a common set of ESG guidelines from the regulator would add depth to the movement – currently, the NSE100 ESG Index, a subset of the Nifty 100, has only 88 companies. It would also help investors who are now left to developing their own mechanism for identifying ESG-compliant companies. "Ours is an in-house process based on 180-220 questions on ESG matrices. Weightage on each pillar of ESG differs from sector to sector," explains Gopani of Axis MF. The good news is that SEBI's proposed Business Responsibility and Sustainability Reporting requires the top 1,000 listed companies to disclose their ESG initiatives. "It is time ESG compliance is scaled up in India," says Ghosh of M&M.

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